

Meituan (03690.HK)

Intensified competition may continue to put pressure on the profitability
China | Local life | TMT

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Financial summary

In the second quarter of 2025, Meituan reported total revenue of 91.8 billion yuan (RMB, same below), a year-on-year increase of 11.7% and a quarter-on-quarter increase of 6.1%. In terms of profitability, operating profit was 200 million yuan, down 98.0% year-on-year and 97.9% quarter-on-quarter. Adjusted net profit was 1.5 billion yuan, down 89.0% year-on-year and 86.3% quarter-on-quarter. By segment, Core Local Commerce revenue in Q2 2025 was 65.3 billion yuan, up 7.7% year-on-year. Operating profit was 3.7 billion yuan, down 75.6% year-on-year, with an operating profit margin decreasing by 19.4 percentage points year-on-year to 5.7%, primarily due to intense competition in the food delivery industry. New Initiatives revenue was 26.5 billion yuan, up 22.8% year-on-year. Operating loss was 1.9 billion yuan, broadening by 43.1% year-on-year, mainly due to expanded overseas expansion. The operating loss ratio improved by 3.1 percentage points quarter-on-quarter to 7.1%, primarily due to improved operational efficiency.

In terms of expenses, sales costs in Q2 2025 were 61.4 billion yuan, up 27.0% year-on-year, accounting for 66.9% of revenue, up from 62.6% in the previous quarter, mainly due to rider subsidies and the expansion of instant retail business. Sales and marketing expenses were 22.5 billion yuan, up 51.8% year-on-year, accounting for 24.5% of revenue, up from 18.0% in the previous quarter, primarily due to increased user incentive spending. R&D expenses were 6.3 billion yuan, up 17.2% year-on-year, accounting for 6.8% of revenue, remaining stable quarter-on-quarter. General and administrative expenses were 2.7 billion yuan, accounting for 2.9% of revenue, also stable quarter-on-quarter.

Financial performance

Food Delivery & Instashopping Business

The food delivery industry is becoming increasingly competitive. In April, competitor JD Delivery rapidly increased order volumes through its 'Billion-Dollar Subsidy' program, and competition intensified further in May when Taobao Flash Purchase joined the subsidy war. In response, the company employed strategies such as 'Shen Qiang Shou', 'Pin Hao Fan', and subsidies for both consumers and merchants to tackle the competition. This drove overall expansion in the food delivery market order volume. We estimate that Meituan's food delivery order volume growth accelerated to 10.0% year-on-year in Q2 2025, boosted by competition, while delivery service revenue grew by only 2.8% year-on-year, slower than the order volume growth. Meanwhile, the AOV for food delivery declined more significantly due to subsidies, coupled with higher per-order subsidies year-on-year and increased costs from improved social security systems. We expect the per-order UE for food delivery to turn negative in Q2 2025.

Looking ahead to the second half of the year, intensified competition is expected to continue driving order volume growth, but profitability may remain under pressure. In Q3, Taobao Flash Purchase launched a 50-billion-yuan subsidy plan and initiated the 'Super Saturday' campaign. The company quickly responded by matching subsidies, leading to record-high order volumes in instant retail. As of July 12, peak order volume reached 150 million orders, with 'Shen Qiang Shou' contributing over 50 million orders and 'Pin Hao Fan' contributing over 35 million orders. Due to the increased intensity and prolonged duration of competition in food delivery and flash purchase, we expect year-on-year order volume growth for both segments in Q3 and Q4 to further accelerate compared to Q2. However, profitability is likely to remain under pressure. Considering management's guidance that the Core Local Commerce segment may turn from profit to loss in Q3, we expect the operating profit margin for Meituan's food delivery and flash purchase businesses to turn negative in 2025.

Accumulate

CMP HKD 100.5

(Closing price as of 3 Sep)

Target HKD 118.3 (+17.7%)

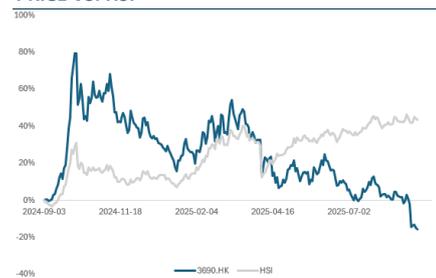
COMPANY DATA

O/S SHARES (MN) :	6,110
MARKET CAP (HKD MN) :	614,160
52 - WK HI/LO (HKD):	217.0/98.0

SHARE HOLDING PATTERN, %

Crown Holdings Asia Limited	8.10%
BlackRock, Inc.	5.32%

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY23	FY24	FY25E	FY26E
Revenue	276,745	337,592	401,698	454,560
Net profit	13,857	35,808	23,824	31,090
Diluted EPS	2	6	4	5
P/E ratio, x	42	16	24	18
Dividend Yield, %	0.0%	0.0%	0.0%	0.0%

Source: Company reports, Phillip Securities Est.

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New Business

The company has restructured its fresh grocery business, significantly scaling back 'Meituan Select' and fully committing to 'Xiaoxiang Supermarket', with plans to cover all first- and second-tier cities. For overseas operations, Keeta has entered the Qatar market, setting a long-term goal of achieving \$100 billion in GMV over the next decade. While the company is not rushing this process, it remains optimistic about the long-term growth potential. According to management, due to restructuring costs associated with business adjustments and the expansion of Keeta in the Middle East, the loss for the New Initiatives segment is expected to widen to 2.3-2.4 billion yuan in the third quarter.

Company valuation

The company's financial resources are more limited compared to Alibaba, which may put it at a disadvantage in a prolonged cash-burning competition and pose a risk of market share loss. However, considering the potential for profit recovery between 2026 and 2027, we have adjusted our revenue forecasts for 2025-2027 to 401.7/454.6/512.9 billion yuan, with net profit attributable to shareholders at 23.8/31.1/39.8 billion yuan, corresponding to EPS of 4/5/7 yuan.

Based on the SOTP valuation method, we estimate Meituan's total target market capitalization for 2025 to be 664.7 billion yuan. We have lowered the target price to HK\$118.3. The current stock price corresponds to a PE ratio of 24x/18x/14x for 2025-2027. We downgrade our rating to 'Accumulate'. The segment valuation includes the following parts:

- 1) Core Local Commerce is valued at 526.8 billion yuan, using an 8% weighted average cost of capital and 5% perpetual growth rate;
- 2) New Initiatives are valued at 81.8 billion yuan, applying a 0.8x 2025 P/S multiple;
- 3) Net cash amounts to 56.1 billion yuan.

Risk factors

1) New business performance below expectations; 2) Intensified competition in the food delivery and travel industries; 3) Weaker than expected recovery in consumer demand.

Financials

Key Financial Data

Dec Y/E	FY23	FY24	FY25E	FY26E	FY27E
Valuation Ratio					
P/E ratio	42	16	24	18	14
Dividend Yield, %	0.0%	0.0%	0.0%	0.0%	0.0%
Per share data(RMB)					
EPS	2	6	4	5	7
BVPS	24	29	34	41	49
DPS(HKD)	0	0	0	0	0
Growth & Margin					
Growth					
Revenue Growth	25.8%	22.0%	19.0%	13.2%	12.8%
Gross Profit Growth	57.4%	33.5%	2.1%	13.2%	16.3%
EBIT Growth	298.6%	170.9%	-33.5%	30.5%	27.9%
Net Profit Growth	307.3%	158.4%	-33.5%	30.5%	27.9%
Margin					
Gross Profit Margin	35.1%	38.4%	33.0%	33.0%	34.0%
EBIT Margin	5.1%	11.3%	6.3%	7.3%	8.2%
Net Profit Margin	5.0%	10.6%	5.9%	6.8%	7.8%
Key Ratios					
ROE	9.1%	20.7%	11.5%	12.5%	13.3%
ROA	4.7%	11.0%	6.5%	7.4%	8.2%

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	2023	2024	2025E	2026E	2027E
REVENUE	276,745	337,592	401,698	454,560	512,929
Cost of services	(179,554)	(207,807)	(269,137)	(304,555)	(338,533)
Gross profit	97,191	129,785	132,560	150,005	174,396
Selling and marketing expenses	(58,617)	(63,975)	(88,373)	(90,912)	(102,586)
Research and development expenses	(21,201)	(21,054)	(25,052)	(28,348)	(31,988)
General and administrative expenses	(9,372)	(10,729)	(12,767)	(14,447)	(16,302)
Other income	102,605	132,603	150,293	165,526	191,910
Operating profit	13,415	36,845	24,102	31,819	41,034
Finance income	819	1,292	845	1,116	1,439
Finance costs	(1,425)	(1,337)	(875)	(1,155)	(1,489)
Net finance income/(costs)	(606)	(45)	(30)	(39)	(50)
Share of profits of investments	1,213	1,186	1,200	1,200	1,200
Profit before income tax from continuing operations	14,022	37,985	25,272	32,980	42,184
Income tax expenses	(165)	(2,177)	(1,448)	(1,890)	(2,418)
Profit for the year from continuing operations	13,857	35,808	23,824	31,090	39,766
Profit for the year	13,857	35,808	23,824	31,090	39,766
Profit attributable to:					
- Equity holders of the Company	13,856	35,807	23,822	31,088	39,764
- Non-controlling interests	2	1	2	2	2

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY23	FY24	FY25E	FY26E	FY27E
Current assets					
Inventories	1,305	1,734	2,060	2,331	2,591
Accounts receivable	2,743	2,653	24,045	27,209	30,703
Cash and cash equivalents	33,340	70,834	56,098	43,831	33,850
Others	145,729	134,514	169,479	228,647	295,278
Total current assets	183,116	209,735	251,682	302,018	362,422
Non-current assets					
PPE	25,978	30,239	34,308	38,925	44,164
Others	83,936	84,381	82,604	80,325	77,472
Total non-current assets	109,913	114,620	116,912	119,251	121,636
Total assets	293,030	324,355	368,594	421,269	484,058
Current liabilities					
Total current liabilities	100,874	107,936	118,729	130,602	143,662
Non-current liabilities					
Total non-current liabilities	40,199	43,815	42,939	41,221	41,221
Total liabilities	141,073	151,751	161,668	171,823	184,884
Equity attributable to equity holders of the Company	152,013	172,663	206,926	249,445	299,174
Non-controlling interests	(57)	(59)	0	0	0
Total equity	151,956	172,604	206,926	249,445	299,174
Total liabilities and equity	293,030	324,355	368,594	421,269	484,058

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	2023	2024	2025E	2026E	2027E
CFO	40,522	57,147	571	4,572	6,858
Profit before tax	14,022	37,985	25,272	32,980	42,184
Depreciation and Amortization	7,997	8,421	9,932	11,235	12,714
Change in working capital	13,476	6,466	(7,759)	(6,983)	6,285
Others	5,028	4,274	(26,874)	(32,660)	(54,324)
CFI	(24,664)	10,205	(15,308)	(16,839)	(16,839)
Short term and long term investment, net	(17,784)	21,205	(188)	315	2,624
Purchase of property, equipment and intangible assets	(6,880)	(10,999)	(15,119)	(17,154)	(19,463)
CFF	(2,781)	(30,415)	0	0	0
Cash paid for distribution of dividends	(2)	(3)	0	0	0
Cash received from financing	(2,779)	(30,411)	0	0	0
Effect of exchange rate changes on cash	104	557	0	0	0
Net Change in Cash	13,077	36,937	70,834	56,098	43,831
Cash, CE and Restricted cash at Beg	20,159	33,340	(14,736)	(12,267)	(9,981)
Cash, CE and Restricted cash at Y/E	33,340	70,834	56,098	43,831	33,850

Exchange rate: RMB/HKD = 1.09

Current Price as of: Sep 3

Source: PSHK Est.

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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